WINTER 2005

Financial Footnotes

A retirement planning newsletter brought to you by Great-West Retirement Services℠ and Alaska DRB

Higher Contribution Limits for your Deferred Compensation (457) Plan

Don't miss a golden opportunity to boost your retirement savings this year by taking advantage of higher retirement plan contribution limits. In 2005 and 2006, annual contribution limits will increase for 457 plans.[1] (See chart below.) And if you're age 50 or older, you may kick in several thousand extra dollars each year to "catch-up" on retirement saving.[2] Consider consulting your tax adviser to discuss your particular situation.

	Federal limits for 457 plans	If you're age 50 and over
2005	$14,000	$18,000
2006	$15,000	$20,000

Username Login

The State of Alaska Supplemental Annuity and Deferred Compensation Plans' "Account Information Online" Web site will soon require participants to register a Username for login purposes. All participants must use a registered Username to access the Web site. The site will automatically walk you through the process of selecting a Username the first time you attempt to log into your account using your SSN.

Highlights of this feature include:

- *Increased security.*
- *Ability to create a Username of any combination of letters and/or numbers, as well as the following special characters: hyphens (-), underscores (_), periods (.) and asterisks (*). If you prefer, you can even elect to use your SSN as your Username.*
- *A "Forgot Username" link where you will be able to retrieve your Username online by entering your SSN and PIN.*
- *A "Forgot PIN" option will allow you to supply a User Verification question and answer upon registering your Username. Then, if you forget your PIN, by entering your Username, providing the last four digits of your SSN and answering your User Verification question correctly, you will be prompted to select a new PIN and will be allowed to enter the Web site immediately.*

Look for notification of the Username requirement to be posted on the account Information Online login page in the near future.

1 Increased limits are due to the Economic Growth and Tax Relief Reconciliation Act of 2001.

2 Individual must turn 50 by the end of taxable year. "Catch-up" contributions are exempt from federal non-discrimination tests.

Have a Successful 2005

There's no better occasion than the start of a new year to review your investment strategy. Now may be the time to rebalance your portfolio, modify your asset mix to adjust to any important changes in your life.

Get Back in Balance

Just like a car, a retirement portfolio may need an annual tune-up to make sure it's running well enough to get you where you want to go. That tune-up is called rebalancing[1], which simply means tweaking your investments to maintain an allocation that fits your long-term goals, time horizon and risk tolerance. It's a three-step process:

Step One: Determine your current asset mix. Group your investments into three categories: stocks, bonds and cash equivalents. Your current allocation is the percentage of your total account in each category.

Step Two: Decide the best mix for you, based on your investment objective, time horizon and risk tolerance.

Step Three: Transfer money among your stock, bond and cash funds to achieve your pre-determined investment mix. Or change future allocations.

Asset Allocation

You may want to change your asset mix to suit new circumstances in your life, such as marriage, divorce, the birth of a baby or a child's graduation from college. You may also want to review your investment strategy as you get closer to your retirement date.

Market Swings

But even if your life has been uneventful and your retirement is decades into the future, you should re-evaluate your portfolio every year. The reason is simple, but it's often overlooked: Your circumstances and priorities may not have changed in the past 12 months, but thanks to the market's ups and downs, your portfolio may have. Over time, an unchecked portfolio inevitably loses its original shape. For example, if stocks soar and bonds underperform, what started as a conservative 60%/40% stock/bond mix may gradually become a more aggressive 70%/30% mix.

If you're saving for retirement, save intelligently. Pick a date to review your plan every year. Why not the first of the year? You'll thank yourself later.

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1 Rebalancing does not assure a profit and does not protect against loss in declining markets. Investors should consider their financial ability to continue a rebalancing plan during periods of fluctuating price levels.

Your Retirement Horizon

Stay focused to reach your long-term goals

As we grow older we experience different stages of life—and meet different financial challenges. Use the following guide to help navigate through the financial timeline of your life.

Starters

In Your 20s

You may want to start saving for retirement, with an emphasis on growth (stock funds). In fact, the earlier you start, the better. Remember, you're accruing interest on the principal and any earnings. Add systematic contributions of new money to the mix and you could save a bundle, especially over a decades-long time horizon.

In Your 30s

Make it a goal to contribute the most you can to your retirement savings plan. In addition to providing tax-deferred savings, it may reduce your current taxable income. The limit for the Deferred Compensation Plan in 2005 is $14,000.

If you have children, consider saving for their college education. Tax-advantaged savings accounts like the Coverdell Education Savings Account and the 529 College Savings Plan allow your pretax contributions to grow tax-deferred—tax-free if withdrawals are used to pay for qualified higher education expenses, i.e. tuition, books, room and board.

Pre-Retirees

In Your 40s

At this stage, it's critical to handle your paycheck and expenses wisely. You're probably making more money than you ever have—and you're probably spending more than ever, too. You may be a homeowner now and if you have children, they may be in college.

Let your kids help to pay for their schooling with work scholarships and/or grants. The goal is to put your kids through school without you having to tap into your nest egg or take a break from making contributions to your retirement savings plan. Student loans exist, retirement loans do not.

Create a budget based on your expectations of how much money you will really need to live once you retire. Are you on track to meeting your retirement goals? If you aren't, you may want to adjust your savings strategy accordingly. Maxxing out your Deferred Compensation Plan contributions and increasing the emphasis on growth in your asset allocation may help you get closer to your retirement goals.

In Your 50s

Save more. Once you reach 50, you may be able to make additional "catch-up" contributions[1] to your Deferred Compensation Plan—an extra $4,000 on top of the $14,000 limit for 2005. As retirement nears, you may want to start shifting your asset allocation to de-emphasize growth and emphasize stability. Consider contributing more to bond funds and short-term investments—you don't want to risk losing your nest egg to a severe dip in the stock market. But bear in mind that you may spend many years in retirement, so you should probably keep some portion of your investments in stock funds for their growth potential.

Retirees

In Your 60s

Take a hard look at your nest egg. Are you nearing the amount of money you need to reach your retirement goal? You may want to consider whether or not you'll work in retirement. Finally, start thinking about your distribution options.[2]

Personal circumstances vary, of course, but keeping track of where you are on this financial timeline may help you gauge your finances in relation to where you want to be—and prompt you to get back on course, if necessary.

1 Individual must turn 50 by the end of taxable year. "Catch-up" contributions are exempt from federal non-discrimination tests.

2 Withdrawals are subject to ordinary income tax.

What to Do if You're not Ready

Jump-start your savings to meet your impending retirement

When you think about the risks you take when you invest over the years, the scariest risk of all is not having enough money to last through your retirement. Here are three ways for you to help prevent retirement shortfall.

- Contribute as much as you can each year to your Deferred Compensation Plan. The contribution limit is $14,000 in 2005. And if you are age 50 or older, you may be able to kick in to your plan another $4,000.
- Don't be too conservative. "Safe" investments, like bank savings accounts, certificates of deposit (CDs)[1] or other short-term securities or cash equivalents may not lose your initial investment, but once inflation and taxes are factored in, they may not make much money either. Invest at least some of your nest egg in stock funds. Past performance is not a guarantee or prediction of future results, however, historically stock funds have outperformed the other asset classes on a long-term basis.
- Work longer. Delaying retirement allows you to earn more money to contribute to your nest egg. It also allows your savings to continue growing tax-deferred.

1 Certificates of deposit are insured and offer a fixed rate of return, whereas both the principal and yield of bonds and stocks will fluctuate with market conditions.

Should You Consolidate Your Loans?

Free up some cash to contribute more to your retirement

Credit cards, student loans, car payments. If you go through a box of checks like a flu victim goes through tissues, you may be a candidate for loan consolidation. Rolling your credit-card balances to a low-rate card or taking a personal loan from your bank or credit union may do the trick. The key is to reduce your interest rates, not just your monthly out-of-pocket costs. These days, debt can be cheap and some credit-card companies are charging single-digit interest rates for their best customers. So if you're paying upward of 18% on several credit cards, consolidating your debt could save you a lot of cash—cash you may sink into your nest egg. Online consolidation calculators can help you figure out just how much. (You can find them on many financial Web sites.) Of course, if you take this opportunity to reduce your principal payments, your new low-interest rate loan could end up costing you more than the old one. Extending the loan payoff timeframe could have the same effect. Proceed wisely.

Have Questions? Need Information?

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